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GOVERNOR

STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
KEITH W. COOLEY, DIRECTOR

KEN ROSS
ACTING COMMISSIONER

BILL ANALYSIS

BILL NUMBER: House Bill 4678, as introduced
TOPIC: Expand board membership of the Michigan Catastrophic Claims Association (MCCA)
SPONSOR: Representative Richard LeBlanc
CO-SPONSORS: Representatives Fred Miller, Michael Sak, Lee Gonzales, Pam Byrnes, Hoon-Yung Hopgood, Mike Simpson, Dudley Spade, Kathy Angerer
COMMITTEE: House Committee on Insurance
Analysis Done: November 28, 2007

POSITION

The Office of Financial and Insurance Services (OFIS) supports this legislation.

PROBLEM/BACKGROUND

The Michigan Catastrophic Claims Association (MCCA) was established in 1978 and is a critical part of the no-fault automobile insurance system. Because there is no limit on the amount of coverage for personal injuries under a Michigan no-fault policy, the liability for this coverage would be too large for most individual insurers to bear. In other lines, when a liability is larger than an insurer can afford to accept on its own, the insurer transfers part of the risk to other insurers through a mechanism known as reinsurance -- insurance for an insurer.

Since the private market was not able to provide reinsurance for unlimited exposures without this special mechanism, the MCCA was created to act as the reinsurer to companies writing auto insurance in Michigan. As of July 1, 2007, each insurance company will pay the first \$420,000 of any catastrophic claim and be reimbursed by the MCCA for the rest. This retention level gradually increases over the next 4 years until it reaches \$500,000 in 2011. As the threshold increases, each insurance company assumes more of the risk for catastrophic claims. Any amounts over the threshold are paid by the MCCA and spread across all member companies in the form of the annual MCCA assessment.

Each year, the MCCA board of directors analyzes the amount needed to cover the lifetime claims of all people catastrophically injured in car accidents. This analysis includes an actuarial review

of the MCCA's investment returns, surplus and liabilities, including medical cost inflation. This analysis yields an amount needed to pay those lifetime claims and may be adjusted to reflect excesses or deficiencies in earlier assessments. A per vehicle assessment is set for the year based on this amount. Each insurance company writing auto insurance is then assessed by the MCCA for each vehicle it insures. In effect, the MCCA acts as an insurer whose policyholders are Michigan automobile insurance companies. Insurance companies may pass the assessment on through the premium charged to policyholders.

This MCCA assessment has varied considerably over the years. In 1995, when the MCCA determined that its surplus was such that it could and should be reduced, it began applying a credit to the annual assessment amount. From 1995-2001 the MCCA returned approximately \$267 per insured vehicle, in addition to a one-time lump sum payment of \$180 in 1998 (\$447 total per vehicle). Unfortunately, due to decreased investment returns and increasing medical costs, the MCCA's surplus is currently underfunded. For the period from July 1, 2007 through June 30, 2008, the MCCA Board will assess \$123.15 per vehicle, which includes \$106.63 in pure premium (the actual costs for current year expenses) and a \$16.42 surplus/deficit adjustment (which reduces the shortfall in discounted reserves held for future obligations) and a \$.10 administration fee.

There are those who believe it would be a benefit to consumers if the MCCA board were expanded to include representatives from the general public.

DESCRIPTION OF BILL

The proposed legislation would expand the current MCCA board of directors appointed by OFIS from 5 to 9 members, with one of the additional members representing insurance agents and three of the additional members representing the general public.

SUMMARY OF ARGUMENTS

Pro

Because the MCCA is a legislatively created entity fulfilling an important public purpose, the deliberations of its board are of interest to all Michigan citizens. It has been argued that although the current MCCA board comprised solely of specialized insurance industry representatives provides enormous value to the MCCA, it cannot function properly in light of the profit motive that is attributed to the private sector. The OFIS Commissioner serves as ex-officio on the MCCA board but cannot vote. The large and diverse population in Michigan certainly contains appropriate non-industry candidates to serve as representatives on the board. Therefore, adding public members to the MCCA board would provide necessary public oversight of the MCCA operations and would ensure that the board is accountable to the public for its actions.

Con

The MCCA allows Michigan to have the only no-fault system in the world that delivers unlimited PIP benefits. Because the benefits are unlimited, they present a significant risk to the

financial health of Michigan auto insurers in the absence of the MCCA. The current MCCA board is comprised of high level company officials who have extensive knowledge of the actuarial, accounting, managerial and operational systems of their respective companies. These individuals are not motivated by political pressures, but instead by the fact that, should the MCCA fail to meet its obligations, the financial security of each auto insurer in Michigan would be in serious jeopardy. Public members may be animated more by ultimate costs to policyholders than the financial stability of the MCCA since such members would not share the same interest that motivates insurer representatives. Therefore, it is imperative that members of the MCCA Board of Directors have a vested interest in ensuring that the MCCA operates in the most efficient and effective manner possible and possess the technical knowledge to pursue that goal.

FISCAL/ECONOMIC IMPACT

OFIS has identified the following revenue or budgetary implications in the bill as follows:

(a) To the Office of Financial and Insurance Services:

Budgetary: None known.

Revenue:

Comments:

(b) To the Department of Labor and Economic Growth: None known.

Budgetary: None known.

Revenue:

Comments:

(c) To the State of Michigan:

Budgetary: None known.

Revenue:

Comments:

(d) To Local Governments within this State: None known.

Comments:

OTHER STATE DEPARTMENTS

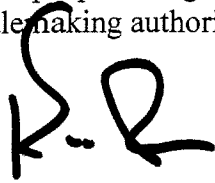
None known.

ANY OTHER PERTINENT INFORMATION


This proposed legislation is similar to legislation introduced in previous and current legislative sessions.

ADMINISTRATIVE RULES IMPACT

The proposed legislation would amend the Michigan Insurance Code. OFIS does have general rulemaking authority under the Insurance Code of 1956, 1956 PA 218.

A handwritten signature in black ink, appearing to be "K. Ross" or similar, written over a horizontal line.

Ken Ross
Acting Commissioner

A handwritten date "11-27-07" in black ink, written over a horizontal line.

Date